

Overview of the Distressed Hospital Fund Process

The Distressed Hospital Fund (DHF) provides that CMAC may negotiate with Selective Provider Contracting Program (SPCP) hospitals that meet the three statutory criteria for distributions from the DHF. (Welf. & Inst. Section 14166.23) In order to maximize the effectiveness of the limited amount of available funds (approximately \$13M, plus FFP if available), the Commission found it necessary to focus its effort on a small number of hospitals. This focus is consistent with many of the comments received from hospitals and association representatives during CMAC's January 12, 2006 public meeting.

In a March 10, 2006 letter, all SPCP hospitals were invited to submit a proposal requesting a distribution from the DHF for the State Fiscal Year (SFY) 2005-06 fiscal year. Each hospital was asked to clearly demonstrate how the hospital meets the statutory criteria, and to also clearly state why the CMAC should consider their proposal over others. No hospital types were excluded from an opportunity to apply for distributions from the DHF.

In response to the letter, CMAC received over 80 proposals requesting well over \$140 million dollars. The need to focus on only a few facilities was apparent when, considering that if all SPCP hospitals, or even just the 80 plus submitting proposals, were to receive equal DHF payments, the amounts would have only been \$50,000 to \$150,000, plus FFP if available. This would fail to meet the financial impact objective expressed by the hospitals and the association representatives.

CMAC reviewed and analyzed the proposals for consideration as a distressed hospital and utilized a range of factors as it always does in negotiating its supplemental programs and in general rate negotiations. Due to the large number of facilities in need, the Commission had to make some very difficult decisions. Although many proposals had merit, in order to maximize the effectiveness of the limited amount of available funds, the Commission focused on a small number of facilities. Only a few hospitals were provided DHF offers to address their immediate financial needs.

CMAC distributed the total amount of DHF funds available at this time for SFY 2005-06. However, in the latter part of SFY 2006-07, stabilization funds may become available and deposited into the DHF, when the Department of Health Services has determined the stabilization amount for SFY 2005-06.

The distribution of the SFY 2005-06 DHF funds is intended to address the hospital's immediate financial needs. DHF distributions for subsequent fiscal years will be separately determined to the extent DHF funds are available for CMAC negotiations. Hospitals that receive funds this year may or may not receive funds in future years. Conversely, hospitals that do not receive fund this year may receive funds in future years. The Commission will continue to consider all of its funding resources in an effort to be responsive to hospital financial needs within the constraints of the State budget and the objectives of the SPCP.